

SME PERFORMANCE INDEX 2020



Viffa Consult

Executive Summary

Micro, small and medium enterprises (MSMEs) are the backbone of the Kenyan economy. They employ over **30%** of the working population, contribute **33%** to the country's GDP and constitute **98%** of all businesses in Kenya (KNBS 2016 SME report). For instance, SMEs **79%** being informal accounted for **83.6%** of the 840.6 thousand new jobs created in 2018.

Despite SMEs prolific contribution to Kenya's socio-economic development; they continue to perform below capacity riddled with high mortality rate of **75%** within 3 years of inception underpinned on challenges such as access to finance, access to markets, access to information, lack of management skills, access to technology and unsupportive policies among others (KNBS 2016 SME report).

The year 2020 was projected to be turnkey on the back of several initiatives that were espoused to change the fortunes of SME including; repeal of interest rate cap, establishment of credit guarantee scheme, payment of pending bills owed to SMEs, set up of SME fund together with supporting policy and Biashara centers, SME loaning through STAWI, financing opportunities through African Development Bank among others.

The emergence of COVID-19 has adversely affected MSMEs. A report by the Kenya Association of Manufacturers (KAM) and KPMG revealed that **37%** of SMEs scaled down their production since reports of the first COVID-19 case was announced in Kenya. With measures such as cessation of movement in and out of the Nairobi Metropolitan Area and enforcement of a nationwide curfew, normal business cycles of MSMEs have greatly been affected.

The Government, development partners and independent private actors such as private sector associations, large companies, donor community etc begun implementing support measures to promote MSMEs adaptation to and/or recovery from the effects of the pandemic. These measures include stimulus packages and funding support structures. Among these measures is the Eight Point Economic Stimulus Programme and a three (3) Billion Kenya Shilling seed capital initiative put in place by the Government of Kenya through the National Treasury to support SME Credit Guarantee Scheme.

Viffa Consult conducted its 4TH Edition annual SME index to establish the performance of SMEs in Kenya based on critical success factors of access to finance

markets, policies, support services and Kenya government stimuli package among others.

Survey Methodology

The survey was conducted between 27th October and 27th November 2020 and covered Nairobi, Kajiado, Kiambu, Rift valley, Kisumu, Coast and Central regions. The study sample was 200 respondents with utilization of purposive sampling for sectors to ensure representation and random sampling in each sector. Data collection methods used was; online survey distribution, telephone interviews as well as key informant interviews

Results

1: SME Turnover

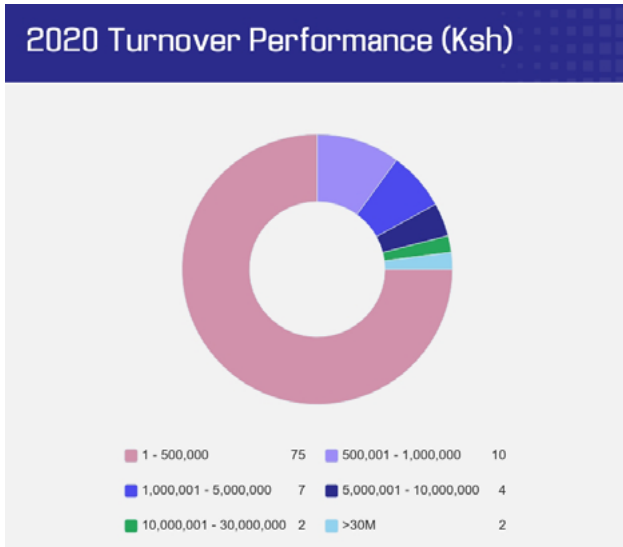


Chart1 (Analysis by Viffa Consult)

2: SME Turnover Trend

A-Multiyear Trend

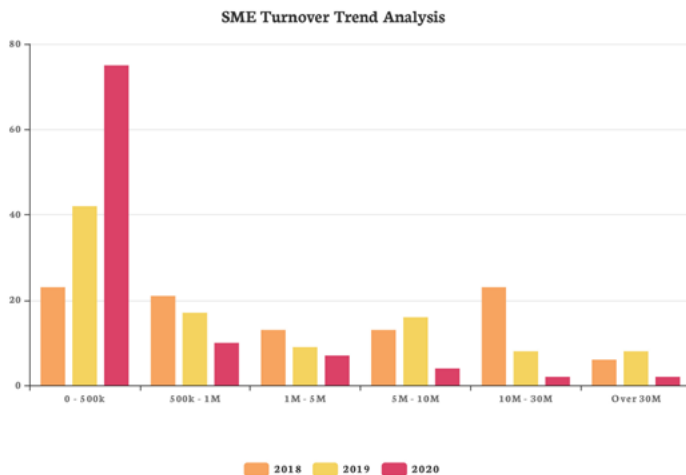


Table 2 (Analysis by Viffa Consult)

b-Multiyear Trend breakdown

Turnover (Ksh)	2018	2019	2020	% Point Change
1-500,000	24%	42%	75%	33% Increase
500,001-1,000,000	21%	17%	10%	7% Drop
1,000,001-5,000,000	13%	9%	7%	2% Drop
5,000,001-10,000,000	13%	16%	4%	12% Drop
10,000,001-30,000,000	23%	8%	2%	6% Drop
Over 30 M	6%	8%	2%	6% Drop

Table 3 (Analysis by Viffa Consult)

Insight

The SME sector turnover performance experienced a great shift with SMEs in the turnover brackets over 500, 000 Ksh to over 30 M Ksh experiencing a drop in turnover as per table 3 while SMEs with turnover of 1-500,000 Ksh experience a 33%-point increase between the years 2019-2020

The turnover drop can majorly be attributed to negative effects of Covid 19 due to decline in market and the shift must have dropped to below 500,000 Ksh which explains the increase in turnover bracket of 1-500,000 Ksh for the same period.

3: Primary Source of Financing in 2020

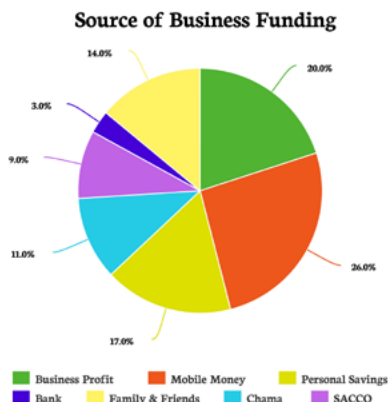


Table 4 (Analysis by Viffa Consult)

Business Financing Trend

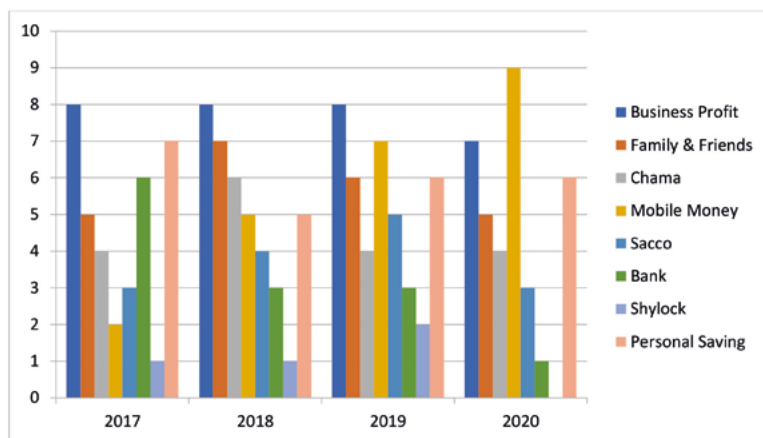


Table 5 (Analysis by Viffa Consult)

Insight

SME financing in 2020 was led by; Mobile credit, Business profits, personal savings, family- friends, Chama , SACCO and finally Banks.

Mobile money continues to increase its role in SME financing as bank financing remaining shabby despite the enactment of the movable property securities rights acts that has potential to increase financial inclusion. Introduction and successful implementation of the SME credit guarantee scheme has potential to anchor banks as a key player in SME financing.

4: Success in access/or restructure of loans with any financial institution in Kenya in 2020

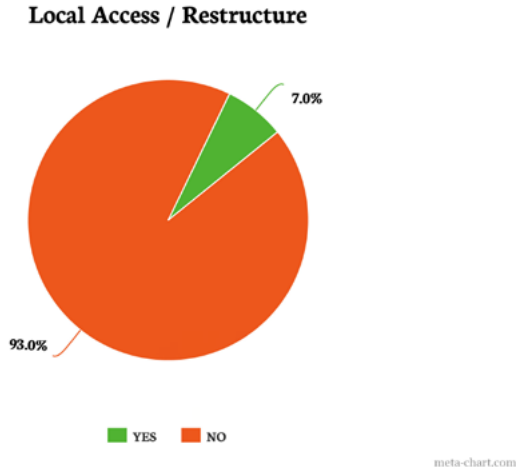


Table 6 (Analysis by Viffa Consult)

5: Government intervention (stimuli package) accessed or that had a benefit to your business

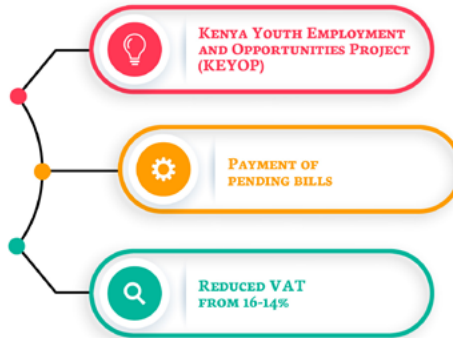


Table 7 (Analysis by Viffa Consult)

Insight

KEYOP came out top especially for micro enterprises in manufacturing clusters in Uhuru Textile, Racecourse Auto and Kariokor Leather markets.

Despite being announced and promised to be operational by October 2020, the Credit guarantee scheme is yet to be rolled out in spite of the acute need by SMEs.

6: Intervention that will help SMEs build resilience against external shock such as Covid 19

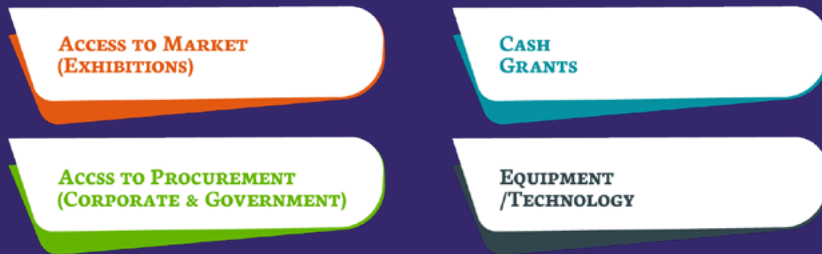


Table 8 (Analysis by Vifva Consult)

Insight

Over 90 percent of SMEs indicated the decline in sales and market opportunities due to Covid 19 hence the need for state and non-state actors to provide market opportunities through exhibition opportunities (both physical and online as in the case of The Heva Fund case in Uhuru Textile market <https://uhurumarket.co.ke/>) as well as access to and prompt payment by both corporate institutions and government.

Similarly, affirmative action of accrediting SMEs in manufacturing for student training and attachment as is the case of KEYOP which provides SMEs with alternative revenue.

Access to cash grant and/or low cost loans is much needed to help SMEs jump start or even sustain business combined with access to market. There are already financing interventions toward this by organizations such as Mastercard working together with Kenya Private Sector Association (KEPSA) and Kenya National Chambers of Commerce and Industry (KNCCI) which is commendable but there is need to deepen SME inclusion by working with other players who have grassroot reach such as The Kenya Federation Of Jua Kali Associations (KFJKA) whose membership encapsulates all informal manufacturing primary jua kali associations or SMEs who account for 79 percent of all SMEs in Kenya.

There is also the need for access to technology and modern equipment in order to improve the quality of products hence access greater market share by SMEs in both local and export market.

There are several options such as: set up of common manufacturing equipment at centres of excellence in existing SME clusters as is the case in Kariobangi through ministry of Industry, trade and cooperatives, Set up of commercial units by TVET institutions and explore public private partnership with SMEs in manufacturing.

7: Aspiration for 2021



Table 9 (Analysis by Viffa Consult)

2021 SME Business Outlook

Micro, small and medium enterprises (MSMEs) are the backbone of the Kenyan Kenya's GDP is expected to grow by 5.2 and 5.7 percent in 2021 and 2022 respectively underpinned on several factors such as improved investor confidence based on improved ranking on ease of doing business, containment of COVID 19, stable weather which will in turn stabilise the agricultural and manufacturing sectors, a recovery in domestic consumption and steady public infrastructural spending (World Bank 2020).

Sectors projected to rebound faster in 2021 if COVID 19 cases subside combined with availability of credit include: wholesale-retail, transport, accommodation, education and horticultural export.

Below is a summary of government initiatives that have a bearing on SMEs in the financial year 2021.

MINISTRY / DEPARTMENT	ACTION	ACTION DETAIL	IMPLICATION TO SMES
National Treasury	Proposed Credit Guarantee Scheme (CGS)	The proposed scheme will act as a partial substitute for collateral, where the guarantor promises to pay all or part of the loan if the borrower defaults.	CGSs would ease the financial constraints of SMEs by enabling them to access capital
Ministry of Industry, trade and cooperatives	<ul style="list-style-type: none"> Kenya Industry and Entrepreneurship Project (KIEP) Kenya Youth Employment and Opportunities Project (KYEOP) 	<ul style="list-style-type: none"> KIEP is a US\$50 million project that will be implemented by the Ministry of Industry, Trade and Cooperatives with support from the World Bank Group over the next six years between 2019-2024 The MbeleNaBiz business plan competition is an initiative of the Government of Kenya, under (KYEOP) 	<ul style="list-style-type: none"> KIEP aims to increase innovation and productivity in select private sector firms in Kenya by strengthening the private sector (including startups, SMEs, incubators, accelerators, technology bootcamp providers, etc.) through financial grants and technical assistance. MbeleNaBiz aims to expand new and existing youth-led enterprises by providing them with grant funding and/or business plan training.

Similarly The Finance Act 2019 has introduced new issues that SMEs must take cognizant moving to 2021

AREA	DETAILS	SME SECTOR AFFECTED
Digital Tax	<ul style="list-style-type: none"> The Act has introduced a new paragraph under Section 3 of the Income Tax Act, which provides emphasis that income accruing through a digital marketplace is chargeable to tax. Digital market place has been defined to mean “a platform that enables the direct interaction between buyers and sellers of goods and services through electronic means. 	SMEs who generate income through digital marketplace/ e-commerce will be affected
Plastic Recycling	<ul style="list-style-type: none"> The Act has introduced a reduced corporate tax rate of 15% to any company operating a plastics recycling plant. The rate will be applicable for the first five years from the year of commencement of the company’s operations VAT exemption has been introduced on plant, machinery and equipment used in the construction of plastic recycling plants 	Manufacturing/importers/supplier of plastic and related equipment
Turnover Tax	<ul style="list-style-type: none"> The Act has re-introduced turnover tax at the rate of 3% of the gross receipts per month. The tax will be payable by resident persons whose gross receipts do not exceed or are not expected to exceed KES 5 million per year. Turnover tax will not apply to rental income, management or professional or training fees, income of incorporated companies and any income which is subject to a final withholding tax. Presumptive income tax (introduced through the Finance Act, 2018) will continue to apply to such income but will be an advance tax available for set-off against the turnover tax payable. 	Sole proprietors/ businesses whose annual turnover do not exceed KES 5 million per annum
Agricultural pest control product	<ul style="list-style-type: none"> Agricultural pest control products have been included in the zero rating schedule 	Producers and distributors of pest control products and farmers
Locally manufactured ICT equipment	<ul style="list-style-type: none"> The Act has amended the VAT Act by introducing VAT exemption on locally manufactured motherboards and inputs for the manufacture of motherboards as approved by the Cabinet Secretary responsible for information communication technology 	ICT

References

World Bank: Kenya Economic Update, April 2020: Turbulent Times for Growth in Kenya -- Policy Options during the COVID-19 Pandemic

Kenya Industry and Entrepreneurship project: <http://www.kiep.go.ke/>

Kenya Youth Employment Opportunities Project: <http://mis.kyeop.go.ke/>

Kenyan Law: http://kenyalaw.org/kl/fileadmin/pdfdownloads/AmendmentActs/2019/FinanceAct_No23of2019.PDF.



Viffa Consult

For Further Inquiries contact:
Victor Otieno
Managing Director

Viffa Consult Ltd
Mayfair Suites
Off Parklands Road

P.O.Box 35320-00200 Nairobi
Tel: 254 723 98 25 28
victor@viffaconsult.co.ke

WWW.VIFFACONSULT.CO.KE